



City of Santa Barbara
Airport Department

DATE: November 18, 2009
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: Airport Rental Adjustments

RECOMMENDATION: That Airport Commission authorize the Airport Director to waive annual CPI increases for month-to-month tenants for the period beginning September 1, 2009 and ending August 31, 2010.

DISCUSSION:

Background

Office vacancies in the Goleta area, for the second quarter of 2009, dropped slightly to 11.6%, with an average asking price of \$1.64 psf. Industrial vacancies rose to a new high of 7.6%, with an average asking price of \$1.24 psf. The Radius Group and the Goleta Economic Forecast have both predicted that vacancy rates in the commercial real estate sector will continue to rise throughout 2009 and well into 2010.

Local commercial real estate companies have begun to reduce their asking rates, particularly for spaces over 3,000 square feet. Rates in the Goleta Business Park have dropped as low as \$1.25 per square foot for prime office space.

Airport Month-to-Month Leases

The Airport is fortunate to have many long-standing tenants. The current extraordinary economic situation makes it prudent to retain as many tenants as possible to maintain our commercial-industrial revenue stream.

Airport month-to-month leases contain a clause requiring an annual rental adjustment of no less than 3% and no more than 8%, based upon the CPI index for the Los Angeles/Riverside/Orange County area. The index has not been above 3% since October of 2008, and has been a negative number since January 2009. (*See attached chart.*)

A number of tenants have called to object to receiving rental increases which at the minimum 3% are actually almost 5 points above the September CPI of -1.0. Other tenants have reduced their space to reduce rents, as their businesses have been adversely impacted by the current economic downturn.

Proposed Waiver

In view of the current economic climate, and the likelihood that the economy is not expected to recover in the next year, staff is proposing a waiver of rental increases for month-to-month tenants for the period September 1, 2009 to August 31, 2010.

Financial Impact

The financial impact of deferring the CPI rental adjustments is estimated to result in Commercial/Industrial revenue reductions of \$19,800 in fiscal year 2010, \$18,000 in 2011.

The proposed waiver includes all tenants on month-to-month leases including the Department's T-Hangar tenants. The fiscal impact would be lost revenue of \$2,520 in fiscal year 2010 and \$3,528 in fiscal year 2011.

The combined total revenue reductions would equal \$22,320 in FY2010 and \$21,528 in FY2011. The current projected revenue for FY2010 is \$3,620,250 from Commercial/Industrial properties and \$201,024 from the T-hangars. The proposed reductions represent less than 1% (0.6%) of FY2010 projected revenue.

Lease Review Subcommittee met on Thursday, October 8, 2009 and after discussing the proposed policy, recommended approval.

ATTACHMENT

CPI

Aug-08	5.1%
Sep-08	4.5%
Oct-08	3.4%
Nov-08	1.0%
Dec-08	0.1%
Jan-09	-0.1%
Feb-09	0.0%
Mar-09	-1.0%
Apr-09	-1.3%
May-09	-1.8%
Jun-09	-2.2%
Jul-09	-2.6%
Aug-09	-1.7%

